KeepRite Products Limited / 1977 Annual Report

DIRECTORS

F. STEWART BROWN
Brantford, Ontario

JOHN G. EDISON, Q.C.
Toronto, Ontario

GERALD T. FENWICK
London, Ontario

ROSS M. HANBURY
Toronto, Ontario

J. GORDON McMILLEN
Brantford, Ontario

J. THOMAS McMILLEN
Brantford, Ontario

THEODORE E. RHENIUS
Brantford, Ontario

JOHN O. TREPANIER, Q.C.
Brantford, Ontario

OFFICERS

J. GORDON McMILLEN
Chairman of the Board and
Chief Executive Officer

F. STEWART BROWN
President and
Chief Operating Officer

THEODORE E. RHENIUS
Secretary-Treasurer

REGISTRAR AND TRANSFER AGENTS

THE CANADA TRUST COMPANY
Montreal, Toronto, Winnipeg,
Calgary, Regina and Vancouver

SHARES LISTED

MONTREAL STOCK EXCHANGE
TORONTO STOCK EXCHANGE

AUDITORS

MILLARD, ROUSE AND
ROSEBRUGH
Chartered Accountants
Brantford, Ontario

BANKER

CANADIAN IMPERIAL BANK OF
COMMERCE

COMPANY PLANTS AND OFFICES

HEAD OFFICE
44 Elgin Street, Brantford, Ontario,
Canada

PLANTS
Brantford, Ontario, Canada
London, Ontario, Canada
Lisbon, Ohio, U.S.A.

SALES OFFICES
Halifax, Montreal, Ottawa, Toronto,
Hamilton, London, Winnipeg,
Calgary, Edmonton, Vancouver

REPRESENTATIVES

Farmington, Conn., U.S.A.
Atlanta, Ga., U.S.A.
Stafford, U.K.

Financial Highlights

	Year ended December 31 1977	1976
SALES	$53,845,490	$51,475,525
Net Earnings	$ 3,250,883	$ 3,573,943
Per share	$ 1.61	$ 1.78
Cash dividends paid	$ 860,097	$ 807,786
Number of Shareholders*	955	1,069
Number of shares outstanding*	2,022,631	2,015,731
Number of people employed*	687	771
Salaries, wages and employee benefits paid for our people	$13,010,204	$11,619,081
Value of assets employed	$30,294,742	$30,652,296
Working Capital	$12,670,780	$11,052,660
Long term Debt	$ 1,061,847	$ 1,250,000
Net Worth*	$16,198,270	$13,802,999

*At year end

To Our Shareholders:

In our 1976 report to shareholders, we expressed concern about the economy of Canada, and cautioned that 1977 would likely be a year of modest growth. This forecast proved to be correct and while our sales during the year reached an all time high, the percentage increase was not as large as in recent years. The weak Canadian economy, coupled with adverse weather conditions during the peak air conditioning selling season, selling prices under A.I.B. controls and start-up costs of new manufacturing facilities were major factors contributing to lower earnings in 1977. However, earnings were still the second highest in the Company's history.

Sales and Earnings

Sales for 1977 were $53,845,490, an increase of 4.6% over 1976. Net earnings of $3,250,883 represents a decrease of 9% from 1976. This is equivalent to $1.61 per Class B and/or Class C share compared to $1.78 last year.

Export sales were the strongest segment of our operation in 1977. Sizeable gains were made in the United States, the Middle East and Europe. Sales of domestic residential central and room air conditioners were the most disappointing part of results in 1977.

Although the cost of raw materials, components, wages and salaries and other operating costs continued to increase in 1977, the increases were more modest than experienced in 1976 and there was a greater degree of stability.

Financial Position

As a result of a lower level of activity in the fourth quarter, working capital requirements decreased considerably. Inventories at $12,122,902 were down slightly by $179,262 and accounts receivable at $12,694,418 were down by $669,386. Accounts payable were reduced by $2,742,513 resulting in an increase in short term borrowing by $567,371. The working capital ratio increased to 2.0. Cash flow was $4,190,721 in 1977, 69.7% of which was reinvested in the business. Capital expenditures for fixed assets and tooling were $1,067,882.

Shareholders' equity or net worth of your Company increased by $2,395,271 (17.4%) over 1976 after paying dividends of $860,097 (the maximum allowed under A.I.B. regulations). The book value per share increased to $8.01 from $6.85. $260,919 of the long term debt was retired.

Brantford Division

Weakness in the Canadian economy resulted in reduced capital outlays by the business sector. As a consequence, shipments of commercial refrigeration and air conditioning products showed only minor growth in 1977 over 1976. Shipments of room air conditioners to our Canadian customers in the first six months of 1977 were close to our forecast.

J. Gordon McMillen, Chairman

F. Stewart Brown, President

However, total industry sales of room air conditioners and residential central systems in Canada for the full year 1977 were lower by over 35% compared to 1976. KeepRite's sales of these items followed the industry trend closely. This caused a sizeable industry carryover of inventory which combined with the uncertain outlook for the Canadian economy has resulted in a lower level of purchases by our customers for the 1978 season. This was reflected by lower shipments in the fourth quarter of 1977, and will also affect our shipments in the first and second quarters of 1978.

A hot summer in 1978 and a reasonable improvement in Canada's economic condition, could reduce inventories and quickly create a resumption of the sales growth trend in these products, for which there is still a sizeable unsaturated market in Canada. Such developments would, of course, favourably affect our operating results for the latter part of 1978. In the meantime, we continue development and tooling programs on our products aimed at broadening the range of sizes, improving energy efficiency and reducing costs, with the confidence that these activities will pay off well when the market forces in Canada return to normal. They will also help to strengthen our competitive position in world export markets.

Fortunately, the total impact of the Canadian recession was partially offset by solid gains in most of our export markets.

In January 1977, production of room air conditioners on a third assembly line commenced in a new 70,000 square foot factory addition. This modern, highly efficient factory had the usual start-up costs common to the creation of such facilities, but we are confident that it will contribute significantly to productive capacity and earnings in the future.

Every effort is being made by our management, sales and technical people to develop new markets and new products to minimize the impact on our Company of the continuing weakness in the Canadian economy.

The residential heat pump is the fastest growing product in the air conditioning industry in North America. The KeepRite residential heat pump which has been under development and exhaustive field testing for the past two years, was introduced to the Canadian market in January 1978. This is the only heat pump currently offered in Canada that is designed specifically for the rigours of the Canadian climate. Such climatic conditions prevail in northern and central U.S.A. where we think our product will be ideally suited to the market. Initial installations have proven that we have a highly efficient unit with unique features and we expect good market acceptance.

Unifin Division

The demand for Unifin industrial heat transfer products was strong in 1977 and the year started with a substantial backlog. A strike that started in January and which lasted 28 days reduced production potential by over 10% and shipments for 1977 were lower than in 1976, and lower than they would otherwise have been. The strike ended with the signing of a 2-1/2 year collective agreement.

Because of the tightening of capital expenditures by industry and power utilities, and delays of power projects due largely to environmental and political problems, the demand for Unifin products showed signs of softening late in 1977 and we entered 1978 with a lower backlog.

The main thrust of Unifin's market development in 1977 was in the United States where there is significant untapped potential for the products of this Division.

Cardinal Division (The Cardinal Development Corporation)

This new Division with a plant in Lisbon, Ohio, U.S.A. was acquired in January 1977. It manufactures custom-engineered oil immersed pumps for the electrical industry. Cardinal is operated as a Division of the Company.

Sales of pumps, which are dependent largely on the needs of the major electrical equipment manufacturers, were lower in 1977 than anticipated, nevertheless, Cardinal had a profitable year in line with our expectations. We expect this Division to continue to make a modest contribution to Corporate

profits in 1978.

General Comment

We are in the process of reassessing your Company's strategy which has been to build a strong manufacturing base in Canada and to seek markets for our products and our engineering technology in all parts of the world. We believe this has been a successful strategy, but conditions in Canada for secondary manufacturing may force us to establish manufacturing facilities in more favourable locations. In this respect, we are assessing foreign possibilities.

We expect that 1978 will be a challenging and difficult year for KeepRite. Our projections indicate that it will take our total efforts and capabilities to meet this challenge. We have taken, and are taking, all steps necessary to minimize unnecessary expenditures and maximize all opportunities. We anticipate continued growth of sales in the United States and offshore markets and hope that more favourable conditions may create similar growth in Canada. The final result will depend on how well the Canadian economy recovers in 1978, and also how well we are favoured with warm summer temperatures.

Acknowledgments

The results that were achieved in 1977 are a tribute to the dedicated efforts of the "KeepRite Team". To them we express our sincere thanks and appreciation.

In 1977, we lost the services of two of our most senior and valued people. Mr. I. M. (Irv) Bodine, Executive Vice-President and a Director, retired after 30 years of loyal service to KeepRite. On December 6th, Mr. J. J. (Jack) Black, Vice-President, Secretary-Treasurer and a Director, died suddenly and unexpectedly. Mr. Black had planned to retire in June 1978 after 23 years of most dedicated service to this Company.

John J. Black, 1916-1977

We shall greatly miss the services and counsel of these senior executives in 1978 and in the years ahead.

Mr. G. T. (Gerry) Fenwick, General Manager of the Unifin Division, was appointed to the Board to fill the vacancy created by Mr. Bodine's retirement. Mr. T. E. (Theo) Rhenius was appointed Secretary-Treasurer and a Director to replace the late Mr. Black.

The Future

In 1978, we shall continue to concentrate on immediate profitability, to plan for the future and to respond effectively to the changing trends in the industries, markets and economies in which we operate.

The Refrigeration and Air Conditioning Industry is still regarded as an excellent growth industry. With shortages of energy facing the world, and with many of our products in direct support of efficient power generation, distribution and energy conservation, we shall try to capitalize on as many as possible of the opportunities which develop.

We are confident that our technical competence and our manufacturing and marketing skills will enable us to get our share of all the markets which we are qualified to serve.

On behalf of the Board of Directors.

J. Gordon McMillen
Chairman of the Board and
Chief Executive Officer

F. Stewart Brown
President and
Chief Operating Officer

March 10, 1978.

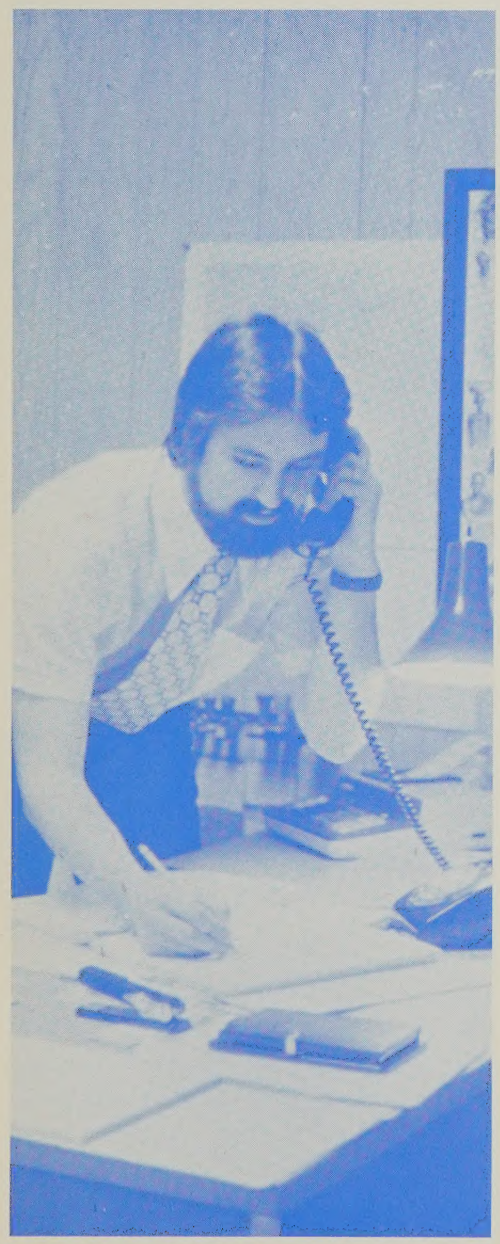
Our Unifin Division specializes in heat transfer and heat recovery equipment. Selection of equipment and systems for unique applications is part of Unifin's Engineering Department responsibilities.

Heavy equipment, designed and built by the Unifin Division, is exported to places such as the U.S.A., Algeria, Pakistan, United Kingdom and Sweden. Here's two Unifin technicians who travel world wide to assist in the sale, installation and servicing of Unifin equipment, discussing an export opportunity.

Environmental concerns and diminishing energy resources make low noise levels and highly efficient products, two very important objectives for the air conditioning and refrigeration industry. KeepRite's exacting specifications require sophisticated computers to chart out the low noise levels designed and built into our equipment. Above, a KeepRite engineer checks a computer print out of a noise level profile.

Time and patience is the key to efficient quality control. KeepRite's heavy equipment is thoroughly tested under conditions far more extreme than normally encountered in the field. Above, rooftop air conditioning units are checked by Quality Control inspectors before shipment.

Ensuring rapid and safe shipment of KeepRite products is the job of our export traffic co-ordinator. Every shipment and its documents are followed from the factory to receipt by the customer. Containers, trucks, boats and planes help deliver KeepRite products to points as near as Syracuse, New York — and as far as Australia.



KeepRite's enviable reputation for reliable products takes root in our fully trained personnel and advanced testing equipment. Here, a KeepRite engineering group is monitoring a performance test of a new residential heat pump.

A proud KeepRite team is seen with the 1-1/2 millionth room air conditioner manufactured in KeepRite's Brantford plant, a significant milestone in the company's history.

KeepRite has built window room air conditioners since 1957. Due to our sales policy on this continent, the KeepRite name appears on units sold in offshore markets only.

Consolidated Balance Sheet, as at December 31, 1977

(with comparative figures for 1976)

Assets

	1977	1976
CURRENT ASSETS:		
Cash on hand and in bank	$ 39,757	$ 384,061
Accounts receivable after allowance for doubtful accounts	12,694,418	13,363,804
Inventories valued at lower of cost and net realizable value	12,122,902	12,302,164
Income taxes recoverable	25,678	—
Prepaid expenses	260,065	127,444
Total Current Assets	25,142,820	26,177,473
FIXED ASSETS:		
Land, buildings and equipment — at cost	8,763,164	7,682,681
Less: Accumulated depreciation	4,085,499	3,492,793
	4,677,665	4,189,888
OTHER:		
Advances to trustee under employee share purchase plan (Note 3b)	353,245	284,935
Unamortized excess of cost of shares over value of net assets acquired (Note 1)	121,012	—
	474,257	284,935
	$30,294,742	$30,652,296

Signed on behalf of the Board:

J. Gordon McMullen

Brown

Liabilities

	1977	1976
CURRENT LIABILITIES:		
Bank loans and acceptances (secured)	$ 8,003,371	$ 7,436,000
Accounts payable and accrued liabilities	3,430,133	6,172,646
Salaries, wages and commissions payable and payroll deductions to be remitted from employees' compensation	771,822	783,517
Income taxes payable	—	482,650
Current maturity on long term debt (Note 2)	266,714	250,000
Total Current Liabilities	12,472,040	15,124,813
DEFERRED INCOME TAXES (Note 1)	562,585	474,484
LONG TERM DEBT (Note 2)	1,061,847	1,250,000

Shareholders' Equity

	1977	1976
CAPITAL: (Note 3)		
Class B participating shares without par value Authorized: 2,500,000 shares Issued: 1,102,625 shares (at December 31, 1977)	206,719	164,876
Class C participating shares without par value Authorized: 2,500,000 shares Issued: 920,006 shares (at December 31, 1977)	172,481	146,014
Common shares without par value Authorized: 1,000 shares Issued: Nil	—	—
	379,200	310,890
RETAINED EARNINGS	15,819,070	13,492,109
	16,198,270	13,802,999
	$30,294,742	$30,652,296

Consolidated Statement of Income and Retained Earnings for the year ended December 31, 1977

Income

	1977	1976
Sales	$53,845,490	$51,475,525
Cost of sales, selling, administrative and other expenses, exclusive of the items listed below	47,474,887	44,468,527
Depreciation and amortization	739,643	623,513
Interest on long term debt	163,077	188,683
	48,377,607	45,280,723
Net income for the year before taxes on income	5,467,883	6,194,802
Taxes on income	2,217,000	2,620,859
NET INCOME FOR THE YEAR	$ 3,250,883	$ 3,573,943
Basic earnings per share — Class B and/or Class C*	$1.61	$1.78

*Based on the weighted average of shares outstanding during the year

Retained Earnings

	1977	1976
Balance — beginning of year	$13,492,109	$10,787,677
Add: Net income for the year	3,250,883	3,573,943
	16,742,992	14,361,620
Deduct:		
— Income tax paid on portion of 1971 undistributed income on hand to create tax-paid surplus of $361,675	63,825	61,725
— Dividends declared		
• on Class C shares (from tax-paid surplus) (1977 — 38.9¢ per share: 1976 — 36.7¢)	361,942	349,839
• on Class B shares (1977 — 45.8¢ per share; 1976 — 43.2¢)	498,155	457,947
• on Common shares	—	—
Total Dividends	860,097	807,786
Balance — end of year	*$15,819,070	$13,492,109

*1977 balance includes $106 tax-paid surplus (1976 — $373)

Consolidated Statement of Changes in the Financial Position for the year ended December 31, 1977

Changes in Financial Position

	1977	1976
SOURCE OF FUNDS:		
Net income from operations	$ 3,250,883	$ 3,573,943
Depreciation and amortization charged to operations	739,643	623,513
Increase in deferred income taxes	88,101	77,805
Total funds provided from operations	4,078,627	4,275,261
Issue of shares under employee stock purchase plan	68,310	28,770
Repayment on loan under employee stock purchase plan	—	10,415
Federal investment incentive tax credit on eligible assets acquired	43,784	71,804
	4,190,721	4,386,250
USE OF FUNDS:		
Income tax paid on portion of 1971 undistributed income on hand	63,825	61,725
Dividends declared and paid	860,097	807,786
Fixed assets purchased	1,067,882	1,676,461
Acquisition of subsidiary, less working capital at date of acquisition of $13,852	234,854	—
Advance made to trustee under employee share purchase plan	68,310	28,770
Payments on long term debt	277,633	250,000
	2,572,601	2,824,742
INCREASE IN WORKING CAPITAL	1,618,120	1,561,508
WORKING CAPITAL, BEGINNING OF YEAR	11,052,660	9,491,152
WORKING CAPITAL, END OF YEAR	$12,670,780	$11,052,660

Notes to Consolidated Financial Statements and the Auditor's Report

Note 1: Accounting Policies

(a) The consolidated financial statements include the accounts of KeepRite Products Limited and its wholly-owned subsidiary, The Cardinal Development Corporation.

This subsidiary was acquired on January 31, 1977, and the results of its operations are included in the consolidated statement of income from that date.

The excess of cost of shares over value of net assets at the time of acquisition was $151,265, which is being amortized over a five year period. The amount charged to income in 1977 is $30,253.

(b) Inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first in, first out basis.

(c) Fixed assets are stated at acquisition costs less federal investment incentive tax credit. Depreciation is provided on a declining balance basis, generally using rates of 5% for buildings and 20% for machinery and other equipment. Expenditure for dies, moulds and other toolage is depreciated 100% in the year of acquisition and the value is not included in asset values.

(d) All research and development costs, including costs of developing new products, changing existing products and pre-production costs, are expensed when incurred.

(e) Deferred income taxes represent the accumulated amounts of tax deferred in current and prior years through claiming for tax purposes capital cost allowance in excess of depreciation recorded in the accounts.

(f) Translation of foreign currencies — foreign currencies have been translated into Canadian dollars as follows: current assets and current liabilities at rates in effect at the end of the year; other balance sheet accounts and depreciation expense at exchange rates in effect at respective transaction dates; and, income and other costs at average rates during the year.

Note 2: Long Term Debt

(a) The company entered into an agreement dated July 18, 1972 with a Canadian bank for a long term loan in the amount of $2,500,000 bearing interest at the bank's minimum commercial lending rate, plus 1-1/4% per annum, amended to 1% in 1974 (December 31, 1977 — 9-1/4% and December 31, 1976 — 10-3/4%). This loan is secured by a first mortgage on the fixed assets and a first floating charge on all other property and assets of the company and is repayable in equal annual instalments of $250,000 on September 30 in each year until September 30, 1979, on which date the balance outstanding is payable in full. The principal balance due after one year amounts to $1,000,000 at December 31, 1977.

(b) On March 21, 1977 the subsidiary entered into a loan agreement with a U.S. bank. The principal amount of the loan was $87,898 U.S. ($89,480 Canadian) with payment terms of $1,800 U.S. per month including interest to March 21, 1982. The loan is secured by a chattel mortgage on equipment and the guarantee of the parent corporation. The principal balance due after one year amounts to $61,897 U.S. ($61,847 Canadian) at December 31, 1977.

Note 3: Capital

(a) The Class B shares and Class C shares are fully inter-convertible at the option of the holder at any time. The shares outstanding at the respective year ends are summarized in the table below:

	As at December 31, 1977 Shares	Amount
Class B	1,102,625	$206,719
Class C	920,006	172,481
Common	Nil	Nil
	2,022,631	$379,200

	As at December 31, 1976 Shares	Amount
Class B	1,069,013	$164,876
Class C	946,718	146,014
Common	Nil	Nil
	2,015,731	$310,890

(b) In 1975 the company established a share purchase plan for senior employees of the company as authorized by the shareholders' approval of special by-law No. 6 at the Annual and General Meeting on May 22, 1975. Under the plan, the company may advance up to $500,000 to a trust created for such employees to

finance the purchase by the trustee of either Class B or Class C shares from the treasury of the company to a maximum of 4% of the outstanding shares of the company. The price at which such shares may be purchased is to be set by the Board of Directors with reference to current market prices. Funds advanced to the trustee bear interest at 6% and are repayable within five years. The trustee holds the shares as collateral security for the advances made by the company.

Shares are released to the employees as the related advances are repaid. The employees are individually liable for the amounts advanced to the trustee on their behalf; the obligation of the trustee to repay the advances is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.

During the year the company advanced $68,310 to the trustee repayable no later than 1982, which was applied to purchase 6,900 Class B shares from the treasury of the company at $9.90 per share. This accounts for the change in the paid-up capital from $310,890 at December 31, 1976 to $379,200 at December 31, 1977.

Note 4: Directors' and Officers' Remuneration

The aggregate direct remuneration paid or payable by the company to 11 Directors and Senior Officers as defined by the Business Corporations Act was $424,654 for the year ending December 31, 1977.

Note 5: Unfunded Pension Benefits

The most recent independent actuarial reports indicate that the single-sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1977 is approximately $55,718 and will be funded by December 31, 1991.

Note 6: Anti-Inflation Legislation

The company is subject to the Federal Anti-Inflation legislation which imposed restrictions on prices, profits, compensation and dividends. Management is of the opinion that the company has complied with all phases of the requirements and regulations of the legislation since October 14, 1975.

Auditor's Report

To the Shareholders KeepRite Products Limited

We have examined the consolidated balance sheet of KeepRite Products Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

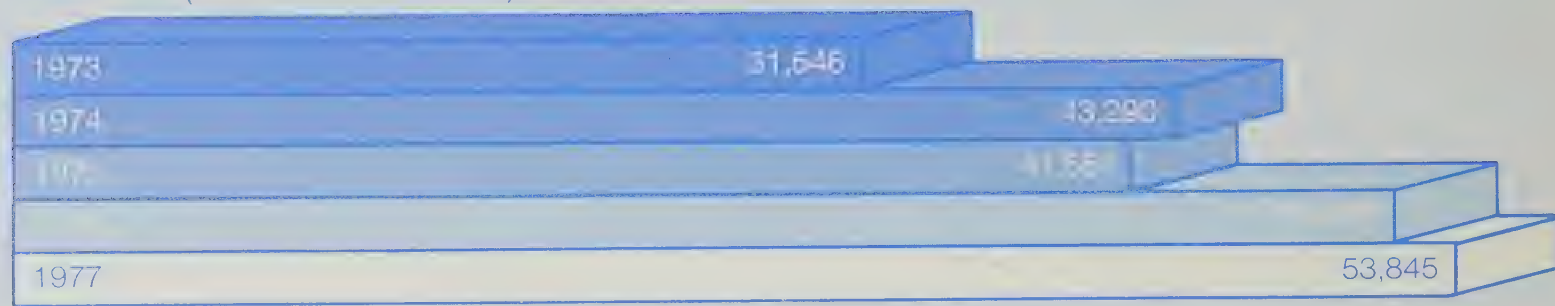
Brantford, Ontario
March 1, 1978

Millard, Rouse and Rosebrugh

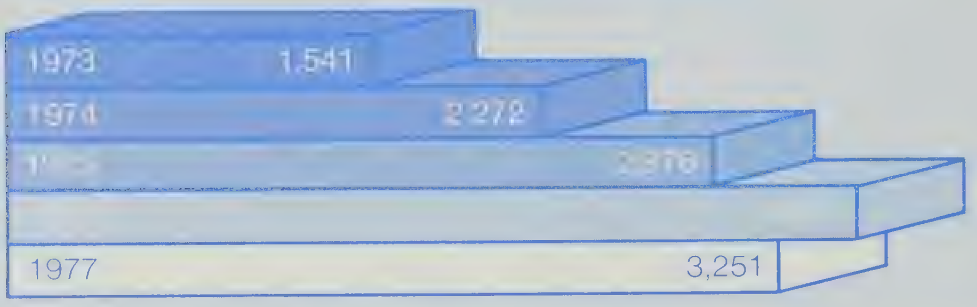
Millard, Rouse and Rosebrugh
Chartered Accountants

Five Year Comparisons

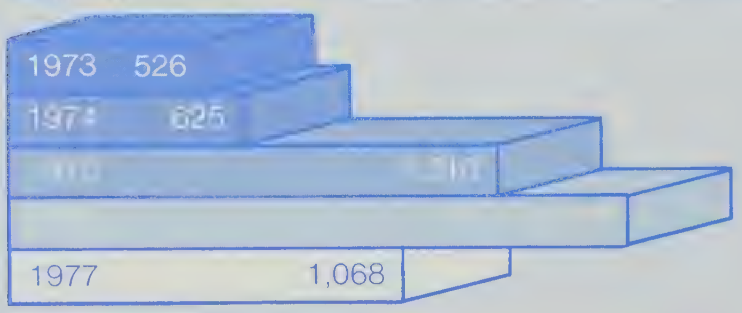
NET SALES (in thousands of dollars)



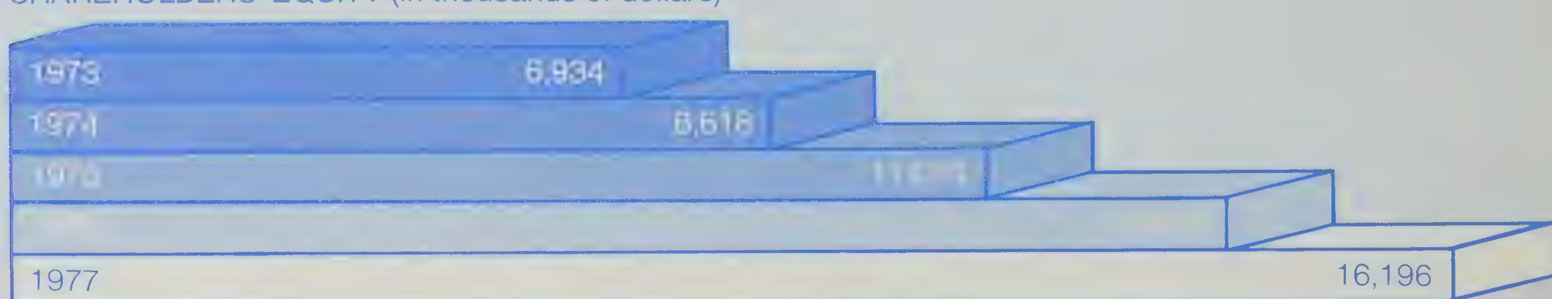
NET INCOME AFTER TAXES (in thousands of dollars)



NEW INVESTMENT IN FIXED ASSETS AND TOOLAGE (in thousands of dollars)



SHAREHOLDERS' EQUITY (in thousands of dollars)



Ten Year Summary of Financial Highlights

OPERATIONS: (in thousands of dollars)	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Net Sales	$53,845	$51,475	$41,551	$43,290	$31,546	$26,866	$22,798	$22,444	$18,855	$15,198
Income before income taxes	5,468	6,195	5,181	3,931	2,650	2,750	2,262	1,755	1,639	1,260
Income taxes	2,217	2,621	2,205	1,659	1,109	1,288	1,142	918	853	656
Net income after taxes	3,251	3,574	2,976	2,272	1,541	1,462	1,120	837	786	604
BALANCE SHEET: (in thousands of dollars)										
Working capital	12,671	11,053	9,491	8,056	6,589	5,769	3,821	3,256	3,334	2,891
Fixed assets Net after depreciation	4,678	4,190	3,209	2,628	2,642	2,532	1,944	1,958	1,339	1,232
Yearly depreciation provided	740	624	691	639	416	479	365	362	336	259
Annual investment Fixed assets and toolage	1,068	1,676	1,310	625	526	1,067	352	980	443	320
Shareholders' equity	16,198	13,803	11,070	8,618	6,934	5,947	4,899	4,085	3,536	2,971
*EARNINGS PER SHARE										
Class B and/or Class C	$1.610	$1.775	$1.509	$1.156	$ .784	$ .744	$ .570	$ .426	$ .400	$ .308

*Adjusted to reflect the three for one subdivision of shares on May 1, 1969, and capital reorganization of August 23, 1972.

KeepRite, an all Canadian company, is a leading manufacturer of refrigeration, air conditioning, heat transfer and heat recovery products. It has an outstanding record of profitable growth during nearly 33 years of operation. Its products are marketed extensively in North America and are exported to many countries throughout the world.

KeepRite

interim report to shareholders

FOR THE SIX MONTHS ENDED
JUNE 30th
1977

KEEPRITE PRODUCTS LIMITED

KEEPRITE PRODUCTS LIMITED

TO OUR SHAREHOLDERS:

In the first six months of 1977, net sales increased 13.4% over the corresponding period in 1976. Net income for the period was $1,533,124. This represents basic earnings per share of 76.1c compared to 73.0c last year.

The results of Cardinal Development Corporation, a wholly-owned subsidiary in Ohio, U.S.A. are consolidated with our other divisions for the first time, but these results as yet do not have a significant effect on the comparison.

Continued inflation in costs of materials, wages, salaries, benefits, and services, combined with pricing limitations of the A.I.B. program is taxing our ability to maintain profit margins.

We view with concern the softness in consumer demand for durable goods in Canada which will, undoubtedly, have some unfavourable effect on our 1978 program for room air conditioners and residential central air conditioners. Demand for commercial and industrial refrigeration products has remained fairly stable and offshore air conditioning sales are moving well despite increasing price competition.

Our Unifin Division is being affected by the postponement of several power generation projects resulting from environmental considerations, but we expect time and necessity will largely rectify this.

Although the outlook for the balance of 1977 is shaded by these conditions, every effort is being made to minimize the effect as we continue to pursue plans designed to maintain growth and progress throughout the Company.

At a meeting of the Board of Directors on August 17, 1977, the third quarter dividend of 10 cents per share on the Class B shares and 8.5 cents (tax deferred) on the Class C shares was declared. Both dividends are to be paid on September 30, 1977 to shareholders of record on September 16, 1977.

J. GORDON McMILLEN,
Chairman, Chief Executive Officer.

F. STEWART BROWN,
President, Chief Operating Officer.

August 17, 1977.

comparative interim financial statement

(unaudited — subject to year-end adjustment)

statement of income

	Six months ended June 30	
	1977	1976
SALES	$32,778,913.	$28,914,063.
Cost of sales, selling, administrative and other expenses exclusive of items listed below	29,423,076.	25,816,326.
Depreciation	616,445.	436,232.
Interest on long term debt	72,709.	96,418.
	$30,112,230.	$26,348,976.
Net income for period before taxes on income	2,666,683.	2,565,087.
Taxes on income	1,133,559.	1,096,568.
NET INCOME FOR PERIOD	$ 1,533,124.	$ 1,468,519.
Period basic earnings per share — Net — Class B or C	76.1c	73.0c

statement of source and use of funds

	Six months ended June 30	
	1977	1976
SOURCE OF FUNDS:		
Net income from operations	$ 1,533,124.	$ 1,468,519.
Depreciation charged to operations	616,445.	436,232.
Total funds provided from operations	2,149,569.	1,904,751.
Increase in deferred income tax	12,150.	16,350.
Payment from trustee re share purchase plan	—	10,416.
Proceeds of chattel mortgage at Cardinal	110,568.	—
	$ 2,272,287.	$ 1,931,517.
USE OF FUNDS:		
Excess of purchase price over assets in subsidiary	$ 145,603.	—
Fixed assets purchased	622,305.	138,040.
Dividends paid	374,958.	373,630.
Taxes paid on undistributed income	28,125.	28,800.
Increase [decrease] in working capital	1,101,296.	1,391,047.
	$ 2,272,287.	$ 1,931,517.

N.B: Statements include consolidation of subsidiary Cardinal Development Corporation for five months in 1977.

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